

New Issue: [Indiana \(State of\)](#)

MOODY'S ASSIGNS Aa2 RATING TO INDIANA FINANCE AUTHORITY'S \$65 MILLION FACILITIES REVENUE BONDS, SERIES 2006A

STATE OF INDIANA'S OUTLOOK ALSO REVISED TO STABLE FROM NEGATIVE

Indiana (State of)
State
IN

Moody's Rating

ISSUE	RATING
Facilities Revenue Bonds, Series 2006A	Aa2
Sale Amount \$65,000,000	
Expected Sale Date 08/21/06	
Rating Description Facilities Revenue Bonds, Series 2006A	

Moody's Outlook Stable

Opinion

NEW YORK, Aug 14, 2006 -- Moody's Investors Service has assigned a Aa2 rating to the Indiana Finance Authority's \$65 million of Facilities Revenue Bonds, Series 2006A (State of Indiana Forensics and Health Sciences Laboratories), expected to sell during the week of August 21. Proceeds of the bonds will be used to refinance on a current basis the outstanding Commercial Paper Hoosier Notes issued to construct a laboratory facility for the state police, the Department of Health and the Department of Toxicology. Simultaneously, Moody's has revised the State of Indiana's outlook to stable from negative. The outlook revision reflects the state's gradually improving economy and strong fiscal management that for fiscal 2006 led to Indiana's first balanced budget in eight years.

Credit Strengths

- State of Indiana's Aa1 issuer rating with a stable outlook
- Debt levels well below the 50-state medians
- Diversifying economy and employment levels that are recovering from the recent recession

Credit Challenges

- Obligation to make payments is subject to appropriation
- Low 45% funded ratio of the Teachers' Retirement Fund
- Economic slowdown could thwart the state's fiscal recovery

BOND PAYMENTS ARE SUBJECT TO LEGISLATIVE APPROPRIATION

The Indiana Finance Authority (IFA) bonds are not general obligations of the State of Indiana, as its constitution prohibits general obligation debt issuance. Instead, the bonds are limited obligations of the IFA (into which several Indiana issuers were consolidated in 2005, including the State Office Building Commission), payable from rental payments of the State Department of Administration pursuant to a Use and Occupancy Agreement. Rental payments are subject to biennial legislative appropriation.

PREVIOUSLY ISSUED COMMERCIAL PAPER NOTES MEANT TO ELIMINATE CONSTRUCTION RISK FOR BONDHOLDERS

The bonds are being issued to refund on a current basis the outstanding Commercial Paper Hoosier Notes issued to construct a state police forensics laboratory and similar facilities for the state's Department of Health and Department of Toxicology of the Indiana University School of Medicine. The Hoosier Notes tax-exempt commercial paper program serves as an interim financing mechanism secured by a liquidity facility in the form of a revolving credit agreement with a provider bank. The program, which provides the state with funds to finance facility costs prior to facility bond-issuance, is intended to eliminate construction risk for bondholders and enables the state to size take-out obligations more efficiently.

The Facilities Revenue Bonds Series 2006A are issued under a trust indenture that conforms to those used for facilities previously financed by debt issued by the State Office Building Commission. The initial term of the Use and Occupancy Agreement is July 1, 2009 after which it may be renewed in two-year terms. Payments made under other similar agreements for prior facilities financed by the IFA's predecessor issuers are not available for the 2006A bonds. The trust estate does not include a mortgage or security interest in the facility; however, in the event of non-appropriation the facility must be vacated. Under the agreement, rental payments may not commence until the facility is available for use and occupancy, which is expected to be in September 2006. The IFA is required to maintain rental interruption insurance of at least twelve months and property insurance of the lower of 100% of replacement costs or the outstanding principal amount on the bonds should the facility be damaged.

STATE'S ECONOMY IS SLOWLY RECOVERING

Indiana, with a large manufacturing base, was impacted particularly hard by the economic slowdown that began in 2000. The state lost approximately 130,000 jobs between 2000 and 2002, more than 100,000 of them in manufacturing. Employment has recovered substantially since then, although still not to its pre-recession level and is growing slowly (0.9% in June 2006, compared to the U.S. average 1.4%). Indiana's economy has continued to diversify; while manufacturing was 22% of the state's total non-farm jobs in 2000, it is now roughly 19%. Education and health services also play an increasingly important role in Indiana's job picture, now accounting for about 13% of total non-farm employment. Personal income increased by 1.1% in Indiana during the first quarter of 2006, while it rose by 1.4% nationally, and Indiana's per capita personal income increased by 3.5% between 2004 and 2005 compared to the U.S. growth rate of 4.6%.

FISCAL 2006 BUDGET BALANCED

The state ended fiscal 2006 with a general fund annual surplus of \$370.4 million, its first balanced budget in eight years. Based on the enacted budget, the state expects to end fiscal 2007 (the second year of the biennium) with an annual surplus of more than \$230 million. Spending growth has been reigned in, with general fund expenditures increasing by 1.9% in fiscal 2006 and budgeted to grow by 2.8% in fiscal 2007. Revenue also is growing and exceeding forecasted amounts by a small margin. Fiscal 2006 General Fund and Property Tax Replacement Fund revenue was 5.5% more than in fiscal 2005 and 3% higher than the budgeted estimate. For fiscal 2007, the state anticipates revenue growth of 4.5%.

STATE'S FISCAL MANAGEMENT PRACTICES INCLUDE REVERSING PAYMENT DELAYS

During the fiscal downturn, Indiana employed several one-time tactics to shore up the budget. These included delaying aid payments to local governments, school districts and higher education institutions, with a liability peaking at more than \$1 billion. Now, with a positive budget balance and improved revenues, the state is reversing those actions. At the beginning of fiscal 2006 the outstanding amount of delayed payments was \$776.8 million; during the fiscal year the state paid localities more than \$300 million in back payments and has budgeted to pay another \$176 million in fiscal 2007.

DEBT BURDEN IS LOW

Indiana's debt burden is low relative to the rest of the nation. The state's net tax supported debt per capita is \$474, compared to \$754 nationally, based on Moody's 50-state medians. Net tax supported debt as a percentage of personal income is 1.4% in Indiana, compared to the 2.5% U.S. median. Proceeds from Indiana's recent lease of its toll road also allowed the state to retire \$190 million in toll road revenue bonds. Additionally, the state retired two long-time outstanding moral obligation debts (Qualitech Steel and Heartland Steel).

Outlook

The outlook for the Indiana Finance Authority's Facilities Revenue Bonds is stable. Because funds for debt service are subject to appropriation, the rating ultimately hinges on the state's willingness to appropriate and therefore is tied to the issuer credit quality of the state, rated Aa1 with a stable outlook. Indiana's slowly recovering economy and strong fiscal management have allowed it to balance its budget and begin to reverse several one-time budget actions used during the downturn. Continued spending restraint and reversal of payment delays coupled with upward revenue and economic trends should result in positive

general fund results in the current fiscal year. While the state's economy is growing and diversifying, its continued high exposure to manufacturing may magnify the impact of the next economic downturn.

What could change the rating - UP

-- An upgrade in the State of Indiana's issuer rating.

What could change the rating - DOWN

-- A downgrade of the State of Indiana's issuer rating.

-- Non-appropriation of the amounts necessary to meet scheduled debt service payments.

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